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WESTCOAST TRANSMISSION COMPANY LIMITED



ANNUAL REPORT 1966

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PRESS RELEASE -- Not for release before 11.00 a.m., July 25, 1966

Westcoast Transmission Company Limited,
1155 West Georgia Street,
Vancouver 5, B. C.

VANCOUVER, B. C., July 25, 1966 -- Frank M. McMahon, Chairman of the Board, today announced that Westcoast Transmission Company Limited will commence payment of dividends this year. Mr. McMahon told shareholders at the annual meeting here that as a result of increased sales of natural gas in British Columbia and the U. S. Pacific Northwest, Westcoast this year will show a net profit of approximately \$1 per share.

Mr. McMahon stated that Westcoast's immediate sales and revenue prospects had been substantially improved by a decision handed down last week by the Federal Power Commission in the United States. The Commission approved an interim contract negotiated by Westcoast with El Paso Natural Gas Company under which Westcoast will export an additional 100 million cubic feet of gas per day to supply El Paso's markets in the U. S. Pacific Northwest. Approval of the National Energy Board of Canada is expected shortly.

Westcoast currently exports 300 million cubic feet per day to El Paso at a price of 22¢ U. S. per thousand cubic feet. The price to be paid to Westcoast for additional gas under the new contract will range from 35.5¢ Canadian per thousand on the basis of 100% load factor to 37.3¢ per thousand at 85% load factor.

This interim agreement will remain in effect until November 1 next year or until such earlier date as a long-term contract between Westcoast and El Paso comes into operation. The companies already have negotiated a 25-year contract under which Westcoast's sales are scheduled to escalate to the level of 600 million cubic feet per day in the fall of 1969. El Paso has an option to purchase an additional

300 million feet and thus increase deliveries to 900 million feet per day after 1970. Applications to implement this contract have been filed with government authorities in Canada and the United States. Hearings are scheduled to open before the Federal Power Commission in Washington on September 20 and it is expected that a September hearing also will be arranged by the National Energy Board of Canada.

"We anticipate early, favorable decisions on these applications," Mr. McMahon said. "However, the interim agreement will enable us to commence these increased deliveries and derive substantial income from these sales in the meantime. The additional revenues will enable the Company to pay a dividend before the end of the current calendar year."

Westcoast's additional gas sales will have widespread economic effects outside the Company. In a recent survey for submission to the National Energy Board, the Alberta-based firm of Hu Harries & Associates Ltd., economic consultants, forecast that capital expenditures of \$295 million would be made to drill development wells and to build field gathering systems and other facilities for the delivery of the additional gas to markets in British Columbia and the U.S. Mr. Harries, who heads the Commerce Department at the University of Alberta, estimated that gas production and overall services in connection with it will create 15,000 new jobs and provide livelihood for some 50,000 people.

Mr. McMahon told the meeting that Westcoast will participate in the ownership of Pacific Northern Gas Ltd., a newly-incorporated company which proposes to build a 430-mile pipeline from the main Westcoast system to the Prince Rupert area of British Columbia. He said that the Public Utilities Commission of British Columbia recently held hearings on this project and that a favorable decision is expected in the near future.

"We hope to clear the right-of-way this fall and to commence pipe-laying next winter," Mr. McMahon said. "On that schedule, we will be able to provide gas service in 1967 for many of the communities and industries in this part of British Columbia."

Mr. McMahon said that Westcoast's exploration and production operations, which are conducted by the wholly-owned subsidiary, Westcoast Production Co. Ltd., had resulted in the establishment of substantial additional reserves of oil and natural gas during the past year. The company has acquired valuable acreage in the Rainbow Lake area of northwestern Alberta in partnership with Western Pacific Products and Crude Oil Pipelines Ltd., and Pacific Petroleums Ltd., and is planning to carry out an intensive exploration program on these lands during the next winter's drilling season.

"We are very confident that oil reservoirs similar to those which have been discovered just across the boundary in Alberta will be found in northeastern British Columbia," Mr. McMahon said. "Westcoast has interests in nearly a million gross acres in this area of British Columbia and we will concentrate major exploratory efforts there in the near future."

The Board of Directors was re-elected without change at the meeting. The Board includes : Frank M. McMahon, Chairman; A. B. Allyne, Lloyd S. Gilmour, Clifford F. Hood, John M. Houchin, Arthur F. Mayne, D. P. McDonald, George L. McMahon, Douglas Owen, the Hon. Frank M. Ross, Robert B. Stewart, and Norman R. Whittall.

DIRECTORS

ARTHUR B. ALLYNE
Vancouver, B.C.

LLOYD S. GILMOUR
New York, N.Y.

CLIFFORD F. HOOD
New York, N.Y.

JOHN M. HOUCHIN
Bartlesville, Okla.

ARTHUR F. MAYNE
Montreal, P.Q.

DOUGLAS P. McDONALD, Q.C.
Calgary, Alberta

FRANK M. McMAHON
Vancouver, B.C.

GEORGE McMAHON
Calgary, Alberta

DOUGLAS OWEN
Vancouver, B.C.

HON. FRANK M. ROSS, C.M.G., M.C., K.ST.J., LL.D.
Vancouver, B.C.

R. B. STEWART
Vancouver, B.C.

NORMAN R. WHITTALL
Vancouver, B.C.

OFFICERS

FRANK M. McMAHON

Chairman of the Board

R. B. STEWART

President

DOUGLAS OWEN

Executive Vice-President and Treasurer

DOUGLAS P. McDONALD, Q.C.

Senior Vice-President and General Counsel

ARTHUR B. ALLYNE

Vice-President and Chairman of Operating Committee

W. D. BRADY

Vice-President—Personnel and General Services

DANIEL A. FREEMAN, JR.

Vice-President—New York Office

GEORGE McMAHON

Vice-President—Production

LLOYD K. TURNER

Vice-President—Public Relations

LEONARD M. YOEELL

Vice-President and Secretary

OTHER DEPARTMENT HEADS

DAVID O. HUNTER

Assistant Treasurer

PETER R. KUTNEY

Manager Gas Supply and Sales

R. C. MORDEN

Manager Operations and Engineering

JOHN PAYNE

Comptroller

A. T. TYLER

Manager Special Projects

Executive and Operating Offices:

1155 WEST GEORGIA STREET, VANCOUVER 5, BRITISH COLUMBIA

Calgary Office:

PETROLEUM BUILDING, CALGARY, ALBERTA

New York Office:

1 CHASE MANHATTAN PLAZA, NEW YORK, N.Y., 10005

HIGHLIGHTS OF THE YEAR

	1966	1965
Operating Revenues	\$ 49,048,000	\$ 42,130,000
Net Income (Before Special Items)	2,798,000	4,184,000
Cash Flow	\$ 11,193,000	\$ 11,032,000
Shares Outstanding	6,657,784	6,610,104
Shareholders' Equity	74,589,000	74,845,000
Shareholders' Equity per Share	11.20	11.32
Number of Shareholders	12,650	14,500
Total Assets	\$278,835,000	\$287,394,000
Long Term Debt	186,069,000	194,154,000
Total Gas Sales, Mcf	169,847,000	146,834,000
Number of Employees	330	324

The figures in the above table and elsewhere throughout the text of this Report do not include operating results of the Company's Kingsgate system under which Westcoast exports certain volumes of gas from southern Alberta to the United States. The Company has no investment in this system. It operates on a cost basis with revenues exactly offset by gas purchase and operating costs. The Kingsgate sales revenues and expenses are included in the aggregate figures given in the Consolidated Statement of Operations and Surplus on Page 19. However, since these offsetting entries do not affect overall financial results, they are omitted, for the sake of clarity, from all other financial and operating statistics given in this Report.



Frank M. McMahon
Chairman of the Board

TO THE SHAREHOLDERS :

During the past year the Company's sales and revenues reached all-time highs. However, due to the increased expenses occasioned by the \$55 million investment to extend the Westcoast pipeline system to Fort Nelson, net earnings before special items amounted to \$2,798,000 as compared to \$4,184,000 for the previous year. A full year's pipeline taxes, interest and other expenses totalling nearly \$5 million were applicable to the new facilities. It was necessary to pay most of these charges out of other earnings since the Fort Nelson line did not begin to generate sufficient revenues to offset its costs until the fourth quarter.

A statistical summary of the year's operating results is provided in the table at the left. On later pages of this report, there is a detailed Review of Operations by President R. B. Stewart which incorporates the report of Treasurer Douglas Owen on the Company's fiscal affairs.

This letter to Shareholders will be largely devoted to discussion of recent developments which are of major significance to the Company's future. These developments are:

- A large new export contract with El Paso Natural Gas Company.
- Advanced plans for two new distribution pipelines in British Columbia.
- Westcoast's proposal to build a large-volume sulphur plant at Fort Nelson.
- A highly successful exploration program, which included participation in the Rainbow area oil play in Alberta, carried out by the Company's wholly-owned subsidiary, Westcoast Production Co. Ltd.

The outstanding event of the Company's year was the negotiation of the new 25-year sales contract with Westcoast's largest customer, El Paso Natural Gas Company. Under this contract, Westcoast will substantially increase its exports to markets in the U.S. Pacific Northwest. Commencing in the fall of 1966, the Company's current contract deliveries of 300 million cubic feet per day to El Paso will be increased to 400 million. Further increments of 100 million feet daily will come into effect on or before December 31, 1969, to increase the contract volume to 600 million cubic feet per day. El Paso has an option to purchase an additional 300 million feet and thus increase deliveries to 900 million cubic feet per day.

Under the existing contract, which was negotiated in 1954, El Paso pays 22c per Mcf for gas purchased from Westcoast. This contract will be cancelled when the new one comes into effect and all future sales to El Paso will be made at higher prices. The new schedule starts at 27c U.S. (29.1c Canadian) and the price escalates annually and varies according to the volumes sold. Over the 25-year term of the new export contract, at 85% load factor the selling price will average 31.6c Canadian per Mcf which will yield \$2.05 billion.

Both companies are firmly committed to the new contract, but before it becomes effective approval is required from the National Energy Board of Canada and the Federal Power Commission of the United States. El Paso and Westcoast are proceeding with the applications for these authorizations and early favorable decisions are anticipated.

The United States requires the additional imports to offset a developing

gas shortage in the Pacific Northwest. Gas sales to industries now have to be curtailed for long periods in many parts of Washington, Oregon and Idaho. Utility companies and public service officials in the area favor the proposed new contract because it will relieve the current shortage and guarantee increasing supplies at economic prices over a long term.

From the Canadian standpoint, this transaction is a highly beneficial development in the country's foreign trade. Canada is not only guaranteeing itself a long-term market for surplus gas, but is ensuring a \$2 billion income of U.S. dollars to offset its chronic imbalance of payments with the United States.

Although the dollar inflow from these additional gas exports will circulate in many parts of Canada, the most abundant benefits will accrue to the Province of British Columbia in the form of increased government revenues, investment, industrial activity and employment. Before 1970, the Province's royalty income from gas production will be more than tripled to approximately \$5.5 million per year. These royalties from gas exports will escalate annually thereafter to yield up to \$150 million during the life of the contract. Domestic gas sales are expected to increase at an even faster rate and royalty revenue from this production will total at least \$100 million in the same period.

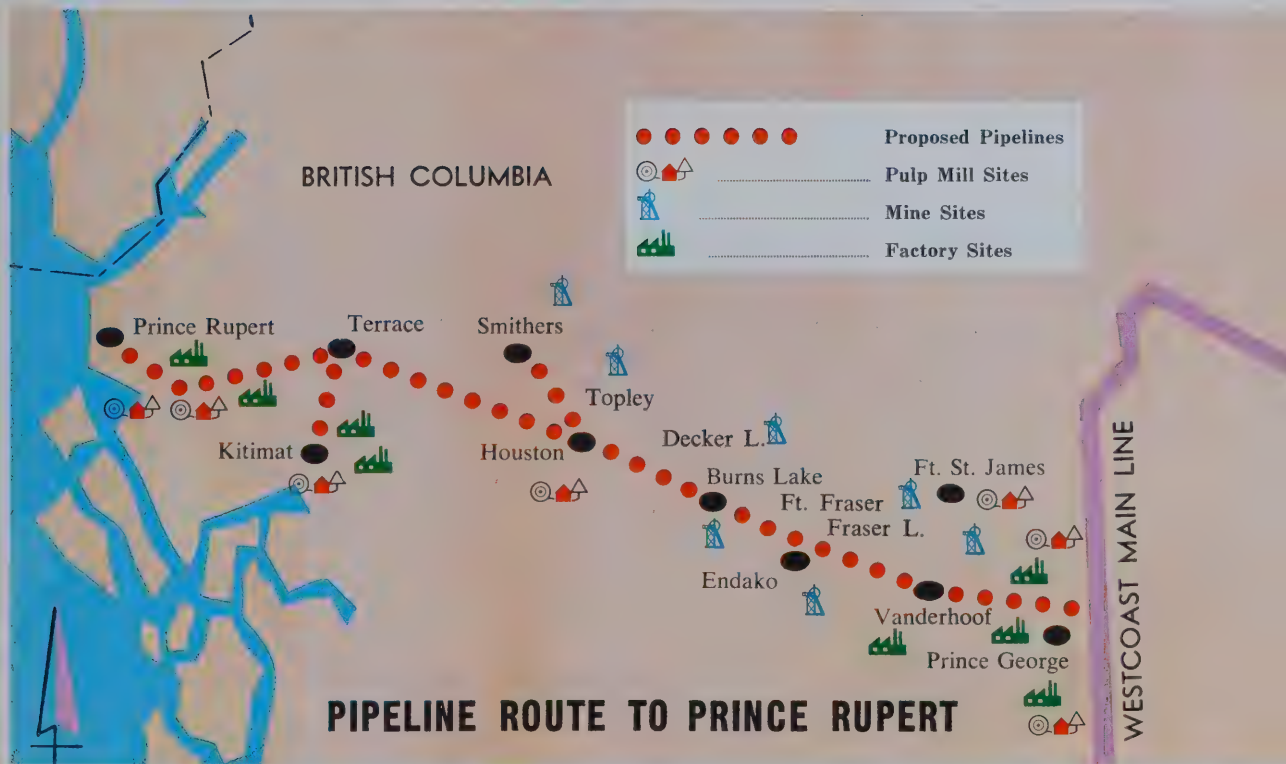
Government revenues from sales and rentals of permits, drilling reservations and leases will be increased by hundreds of millions of dollars when this new export contract is put into effect and producers are given increased incentive to invest in prospective land in British Columbia. Such incentive has been lacking in recent years because no new export permit has been issued for British Columbia gas since 1956. This was in marked contrast to Alberta where new export permits have been issued on the average of one per year since 1958 and land sales revenues in that time totalled \$1 billion. The bidding for British Columbia acreage and the prices offered for it at government land sales can be expected to follow the same pattern as in Alberta.

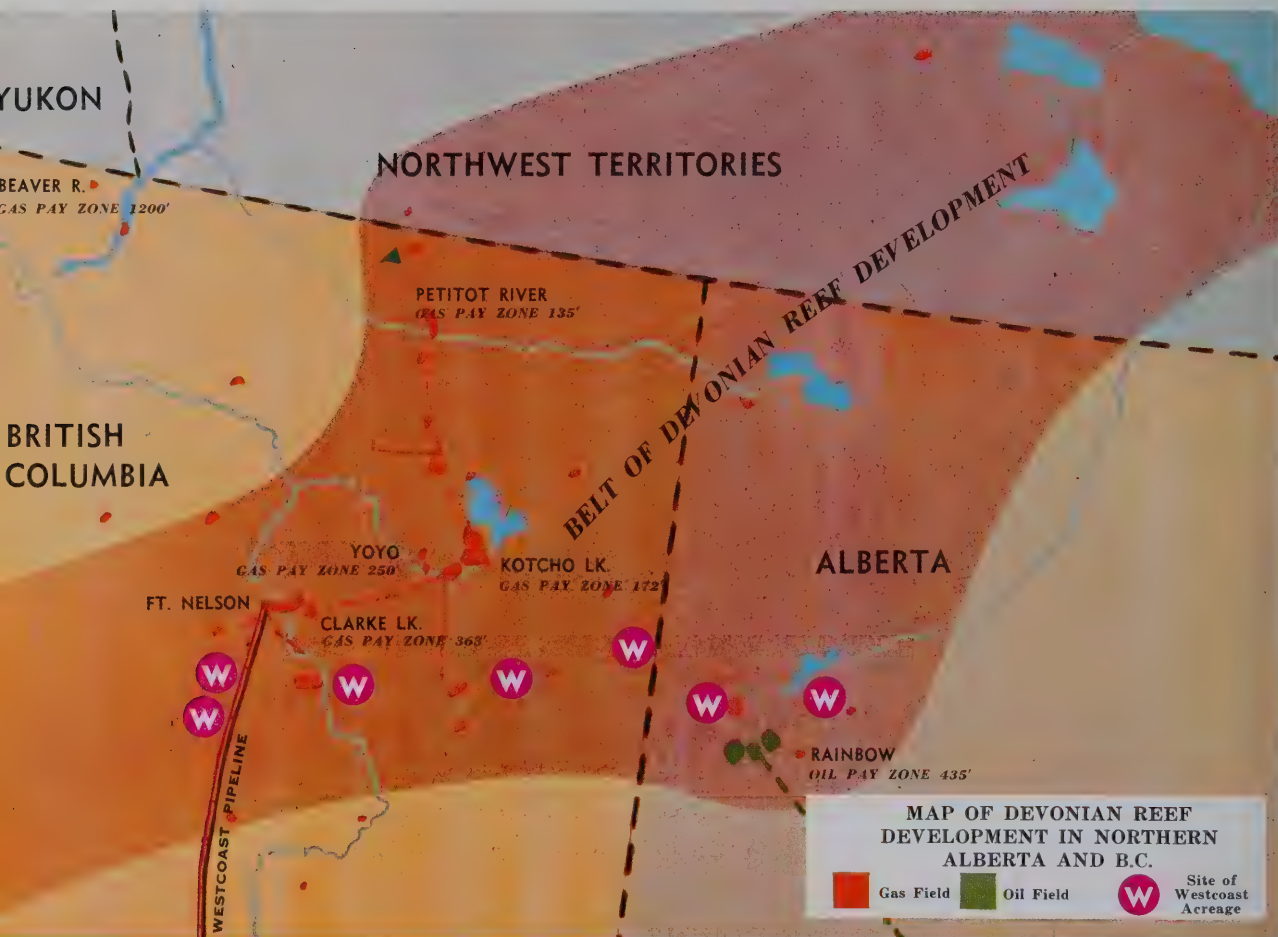
With the approval of the new export contract, Westcoast will initiate a major construction program to expand the capacity of its pipeline system. The program will extend over a period of years and will provide continuing employment for large numbers of workmen in many areas. In the course of the program, compressor stations will be built at many points along the system, gathering lines will be extended to unconnected fields in the Fort St. John and Fort Nelson areas and the present 30-inch mainline will be gradually looped with larger diameter pipeline. The total program will involve expenditures in excess of \$200 million and will increase the ultimate capacity of the pipeline system to more than 1.5 billion cubic feet per day.

Substantially larger volumes of gas will be required from Westcoast in the near future not only to meet the commitments of the new El Paso contract but also to keep pace with the growth of the British Columbia market. This domestic market will be greatly enlarged with the completion of the two new pipeline systems on which construction will begin in the near future. (The routes of the new lines are shown on the maps on the opposite page.)

One of the new pipelines will be built along a 430-mile route in central British Columbia. This project will be carried out by a newly-organized company, Pacific Northern Gas Ltd. The line will be supplied from the main Westcoast system and will serve the large area from Prince George to Prince Rupert where many new industries are being established.

The second new pipeline will deliver natural gas to Vancouver Island and its expanding industries and communities, including the provincial capital of Victoria. This project has been under consideration for several years and





TO THE SHAREHOLDERS

it is now ready to proceed on a new route which was selected during the past year. The new route is more feasible because it reaches a larger market, including the industrial center of Powell River, and presents fewer construction problems than routes which have been proposed and abandoned in the past.

The sulphur extraction plant which Westcoast proposes to build at Fort Nelson is directly related to the greatly increased gas production which is anticipated in that area. Initial production of the plant is planned for 200 tons per day increasing to 500 tons as the Fort Nelson fields are fully developed. The plant is likely to be a significant factor in the future development of northern British Columbia because this steady volume of freight probably will warrant extension of the Pacific Great Eastern Railway to Fort Nelson.

The value and potential of Westcoast's subsidiary, Westcoast Production Co. Ltd., were significantly increased during the past year. Proved reserves valued at more than \$2 million were added to the Company's assets as a result of successful gas exploration in northeastern British Columbia and oil discoveries in southern Alberta.

Westcoast's oil production prospects have been improved by the major discoveries in the Rainbow Lake area of Alberta, which penetrated some of the

TO THE SHAREHOLDERS

thickest and most porous oil pay zones ever found in Western Canada. The initial Rainbow discovery well opened up an oil pay zone 435 feet thick and two stepout wells found oil pay sections of 428 feet and 218 feet. The average porosity of the wells was reported to the Alberta Society of Petroleum Geologists to be 12.2 percent, indicating a production potential approximately 50% greater than the most productive discovery previously made in Alberta.

Shortly after the initial Rainbow discoveries, Westcoast Production acquired interests in three properties, totalling more than 30,000 acres, in the immediate vicinity. These acquisitions were made in association with Pacific Petroleum Ltd. and Western Pacific Pipelines. A successful oil well was completed on one of these parcels just prior to the spring break-up and two more oil wells have recently been drilled on offsetting acreage by other companies.

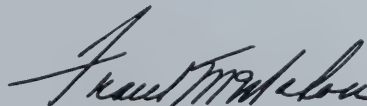
Besides these promising prospects in the immediate area, the Rainbow strike is of particular interest to Westcoast because of the fact that the remarkable Rainbow reservoirs were discovered in Devonian Reef structures. These are related to the thick Devonian Reef system which is known to underlie the wide areas of northeastern British Columbia where much of the Company's acreage is situated. (The trend is illustrated on the map at the left.) The large gas potential of these Devonian formations has been appreciated for some years and has been proved at Clarke Lake, Kotcho Lake and other major fields in this area which have gas pay zones up to 600 feet thick. However, it was not until the Rainbow discoveries that thick pay zones of oil as well as gas were found in this geologic setting.

Westcoast has interests in nearly 1,000,000 gross acres (197,700 net) in the region of British Columbia which is underlain by these deep reef formations. In the light of the Rainbow discoveries, this land has become exceedingly attractive for oil as well as gas exploration, and in next winter's drilling season, the Company will concentrate major exploratory efforts there.

The developments described above—particularly the \$2 billion export contract, the new distribution pipelines to larger markets in British Columbia, the oil and gas potential of the Company's acreage—afford Westcoast many opportunities for substantial growth in sales, revenues and earnings in the immediate future.

The resignation due to illness of Mr. George Martin, a pioneer Director of the Company, has been accepted with regret. We are pleased to announce the appointment to the Board of Directors of Mr. Arthur B. Allyne, Vice President and Chairman of the Operating Committee. Mr. Allyne has had broad experience in the natural gas industry in the United States and Canada and has been associated with Westcoast in an executive capacity since 1960.

Submitted on behalf of the Board of Directors,



Chairman.

**Map Showing
Pipeline System of
WESTCOAST TRANSMISSION COMPANY LIMITED
and Connecting Pipelines
in Canada and the United States**

THE PRESIDENT'S REVIEW OF OPERATIONS

Operating revenues for the fiscal year ended March 31, 1966, were \$49,048,000, a 16% increase over those of the previous year. The revenue increase exactly reflected the growth recorded last year in Westcoast's gas sales. The total volume of gas delivered to the Canadian and United States markets served by the Company was 16% greater than the previous year, rising from 146 billion to 170 billion cubic feet.

The largest sales gains of the past year were recorded in the Canadian market, particularly to meet the expanding industrial and consumer demand in the Province of British Columbia. Sales to the Company's Canadian customers rose 39% above the level of the previous years. Westcoast's deliveries attained a new high average of 465 million cubic feet per day and of this volume approximately 175 million cubic feet—more than one third of the total—was sold in Canada.

Market Outlook

Sales results being achieved by Westcoast's principal individual customers and the market prospects in their respective areas are reviewed below:

EL PASO NATURAL GAS COMPANY, which is Westcoast's largest customer, imports Canadian gas to

supply markets in Washington, Oregon and Idaho. During the past year it became apparent that essential winter demand in these markets would exceed the 300 million cubic feet per day which Westcoast would supply under the existing contract. To meet the threatened shortage, an interim contract for 50 million cubic feet per day was negotiated and went into effect for the winter of 1965-66. Subsequently a new, long-term contract was signed between Westcoast and El Paso, subject to approval by the National Energy Board of Canada and the Federal Power Commission in the United States.

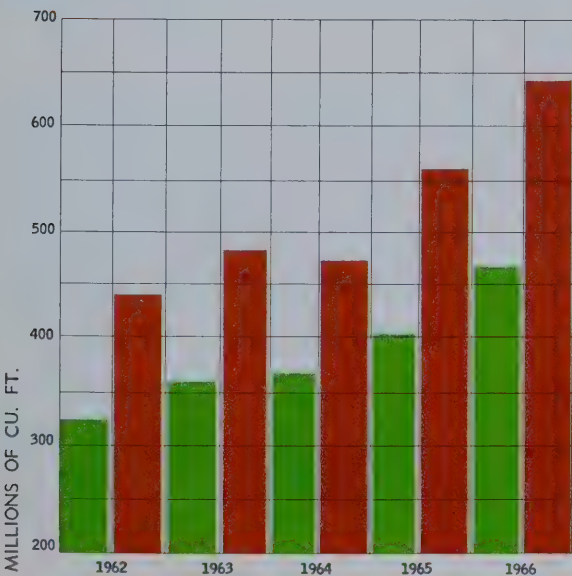
The new contract, which is described in more detail in the foregoing Letter to Shareholders, will escalate Westcoast's maximum sales to El Paso to a level of 600 million cubic feet per day by 1969. El Paso has the option to increase its purchases to 900 million cubic feet per day in subsequent years.

All indications are that the U.S. Pacific Northwest market will readily absorb the maximum volumes that will become available under the new contract. Due to the intensive industrial development and population growth in this region in recent years, the present supply of natural gas is inadequate to meet current demands. In Washington and Oregon, industrial sales are now

FIVE YEAR CHART OF WESTCOAST SALES

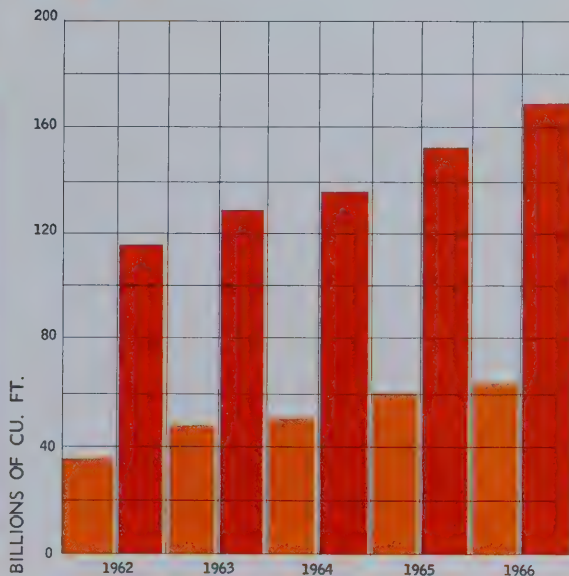
■ DAILY AVERAGE

■ MAXIMUM DAY



■ TOTAL ANNUAL SALES

■ CANADIAN SALES





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FIVE YEAR CHART OF WESTCOAST SALES



THREE THRIVING CITIES IN WESTCOAST'S MARKET AREA



VANCOUVER: *Canada's third largest city is expanding rapidly with new building, industry and population.*



SEATTLE: *A concentration of industry and more than a million people make this a rich market for natural gas.*



PORTLAND: *Recent industrial expansion has made this Oregon metropolis the busiest U.S. seaport on the Pacific.*

REVIEW OF OPERATIONS (CONTINUED)

being severely curtailed by many utility companies and, because of the uncertainty of future economic supplies, the extension of gas lines to promising new market areas has been delayed.

Increasing supplies of gas will be required from Westcoast not only to offset the shortages which have developed in the recent past but also to keep pace with developing demands of the future. El Paso's market projections into the 1970's forecast that gas consumption in the booming U.S. Pacific Northwest will increase annually at the rate of 60 million to 80 million cubic feet per day.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY, which serves natural gas to Greater Vancouver and other populous areas of southern British Columbia, recorded the greatest growth of all Westcoast's customers, increasing its gas purchases by more than 50% to an annual total of 50.4 billion cubic feet. A major portion of the additional gas was supplied to Hydro's thermal-electric generating plant near Vancouver, where an expansion program is under way and will be continued in the coming year. Gas consumption by this plant averaged more than 52 million cubic feet per day during the past year and this capacity will be approximately doubled when the current expansion is completed.

In addition to its own utilization of natural gas for power generation, Hydro is carrying on an intensive and successful campaign to promote gas sales to private industry and residential customers. The Authority achieved a growth rate of more than 8% in this area during the past year, adding 876 new commercial and industrial consumers and connecting 7,275 new residences to bring its total connections to 152,922.

INLAND NATURAL GAS CO. LTD., which supplies gas to communities and industries in the interior of British Columbia, increased its purchases by 8.3% during the past year.

Inland's market prospects are brightened by the rapid industrial development currently under way throughout the company's territory. Ten new pulp and paper mills, representing investment of more than \$600 million, are under construction or firmly projected in this area. These mills and service industries are expected to provide employment for approximately 20,000 additional workers.

Besides expansion of the forestry industry, there is extensive mining development throughout this area. A \$14 million molybdenum mining complex was brought into production early this year and at least five more mines, mainly copper and iron, are being developed in the vicinity of the Inland system.

The industrial and population growth has created many new communities and has spurred construction

of new homes, apartment blocks, schools, etc., throughout the B.C. interior. In recent years, Inland has succeeded in attaching more than 90% of all this new construction to its mains.

Exploration and Production

The Company's exploration and production operations, which are conducted by the wholly-owned subsidiary, Westcoast Production Co. Ltd., were substantially expanded during the past year. Capital outlays were increased 35% to \$1,142,554, land holdings were enlarged by 489,514 net acres, and a record drilling program consisting of 30 exploratory and development wells was carried out by the Company and its associates.

The year's drilling program resulted in eight oil wells and five gas wells. One of the oil wells was drilled on newly-acquired Company acreage in the Rainbow Lake area of Alberta. Other new oil wells were completed in the Grand Forks district of southern Alberta and were a continuation of the successful exploration and development work which the Company initiated in that area in the previous year.

The new gas production was found at various points in northeastern British Columbia. The gas wells included a particularly productive one in the Fort Nelson area which penetrated more than 250 feet of pay zone and an absolute open flow of 182 million cubic feet per day. This well extended the limits of the Clarke Lake field on to Westcoast acreage.

The Company's exploratory activities last year extended into the Rainbow Lake area of northwestern Alberta, where a number of remarkable oil discoveries have been made in the past 18 months.

In order to participate immediately and directly in



Initiated by Cominco, British Columbia's first fully integrated iron and steel plant at Trail is a large consumer of natural gas in its smelting processes.

GAS SALES GROW WITH INDUSTRIES OF PACIFIC NORTHWEST



Increasing quantities of Westcoast gas are used at the Boeing Company's plant in Seattle where commercial jet transports are manufactured for the world's leading airlines. To keep pace with the large volume of orders for Boeing jets, the company increased employment by 14,000 in 1965 and will add another 15,000 this year.



This Columbia Cellulose Company mill at Prince Rupert, B.C., will convert to natural gas when a new pipeline into this area is completed next year. Pulp and paper and other wood industries account for an increasing proportion of industrial gas sales in British Columbia.

REVIEW OF OPERATIONS (CONTINUED)

the Rainbow Lake oil play, Westcoast acquired interests in three parcels of acreage in that area. Two of these properties, totalling more than 11,000 gross acres, are situated in the Hay Lake area, ten miles northeast of the main Rainbow field. The third acquisition was a drilling reservation eight miles northwest of the Rainbow discovery.

Shortly before the spring break-up, a successful oil well with 20 feet of net pay was drilled on one of the Hay Lake parcels. Later, Imperial Oil Company completed an oil well offsetting the property and this is being production tested at the present time. These wells, together with seismic information, indicate several additional well locations to be drilled next winter on this acreage.

The potential of the Company's property northwest of Rainbow has been increased by the indication of a successful oil-gas well on acreage immediately adjoining it. The operator, British American Oil Company, has not yet announced details of the discovery well but that company has applied for and received a permit to build an oil pipeline extension to this area. Seismic work will be done this summer to select a drilling site on the Westcoast land.

On the Company's acreage in the Grand Forks area of Alberta, it is now estimated that upwards of 1,500,000 barrels of primary recoverable oil reserves have been established. Westcoast has interests in two 23,000-acre blocks in this area and discovered oil on one of them in 1964. Last year, an oil discovery was made on the second block and seven productive wells have been completed on these properties.

Limited production is being obtained from the Grand Forks fields at present and when it increases sufficiently a pipeline will be built into the area. When the fields have

been further developed, a secondary recovery program will be considered. In sand reservoirs similar to those at Grand Forks, secondary recovery installations have more than doubled initial primary reserves.

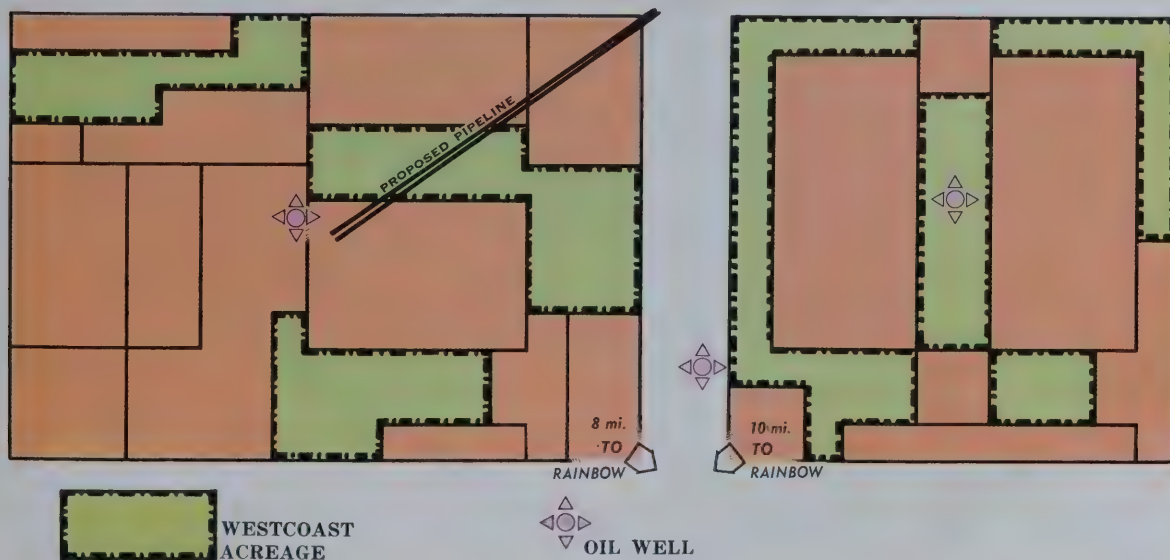
The acreage acquired by the Company in the past year included interests in large drilling reservations on the mainland of the Northwest Territories and in the Arctic Islands. The mainland acreage is an area where oil discoveries have already been made. Although little exploration work has been done there to date, the Arctic Islands also are considered to be highly prospective for deposits of oil and natural gas.

Gas Supply

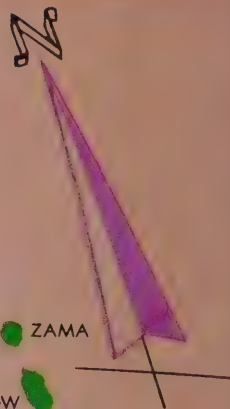
The reserves of natural gas in Westcoast's supply area in northeastern British Columbia and northwestern Alberta continued to increase during the past year at a highly satisfactory rate. Intensified drilling activity in these areas resulted in the discovery or development of more than 900 billion cubic feet of new reserves. With these additional supplies, the past year's production of 170 billion cubic feet was replaced and a net gain of approximately 750 billion cubic feet was recorded in the aggregate gas supply now established within economic reach of the Westcoast pipeline. At the year end, the established recoverable reserves either under contract or available for purchase by the Company were estimated at 8.6 trillion cubic feet.

Although additional reserves were discovered and developed at many points within the Company's supply area during the past year, the most significant increments were made in the Fort Nelson district of northeastern British Columbia. The extension of the Westcoast pipeline provided a long-awaited market outlet for this area and gave added incentive to many com-

WESTCOAST ACREAGE IN RAINBOW LAKE AREA



Map of
WESTCOAST'S GAS SUPPLY AREA
Showing
NEW AND ESTABLISHED FIELDS



REVIEW OF OPERATIONS (CONTINUED)

panies to intensify exploration for the large Devonian gas formations which are known to underlie this region.

A major new discovery was announced during the past winter. An exploratory well drilled by Mobil Oil Company in the Sierra district found 250 feet of net gas pay in Slave Point reef formation. The initial well flow tested at 30.5 million cubic feet per day and a second well was completed on the property to confirm a major gas reservoir.

Another significant development in the Fort Nelson area has been the extension of the known limits of the Clarke Lake field. Three successful stepout wells were drilled by Pacific Petroleum Ltd. during the past winter. One of the wells found 137 feet of net Slave Point gas pay and had an open flow of 230 million cubic feet per day. This and the other successful stepouts extended the known limits of the field and added approximately 30% to the Clarke Lake reserves. Even with this additional stepout drilling, the Clarke Lake field still has not been fully delineated. However, the reserves established there to date are sufficient to support deliveries of 225 million cubic feet per day.

Reserves in the Fort St. John area also were increased as a result of new discoveries made at East Nig Creek, North Buick Creek and Inga. These new fields and additional reserves established by recent successful development drilling assure a continued stable supply of gas for this part of the Company's pipeline.

Westcoast presently gathers gas from 285 wells through 423 miles of gathering system linking 30 fields in the Fort St. John and Fort Nelson areas of British Columbia and the Peace River area of Alberta. No extensions to the gathering system were constructed during the past year since production in the fields already connected amply met last winter's demand. When additional gas is required, the gathering system in the Fort Nelson area will be extended. Only the Clarke Lake field is connected at the present time. With comparatively small capital outlay, the Fort Nelson system can be extended to the Yoyo, Kotcho and Sierra fields to bring these major reservoirs on stream to the Company's pipeline system.

The major gas reserves which are presently being developed in the Rainbow area of Alberta also are within economic reach of the Westcoast system.

Western Pacific Products & Crude Oil Pipelines Ltd.

This company, in which Westcoast holds a 48% interest (799,000 shares) continues to record increases in revenues and earnings. Pipeline deliveries in 1965

averaged 32,679 barrels per day compared to 28,723 in 1964. Western Pacific's net earnings last year were 68% higher than in 1964, totalling \$1,791,484 or \$1.07 per share. The company continued payment of the \$1.00 per share dividend which has been paid regularly since 1963.

In the current year, due to the steady increase in oil production in British Columbia, Western Pacific's throughput and earnings are setting new records. During the first quarter of 1966, deliveries averaged 41,500 barrels per day and after full provision for income taxes, quarterly earnings were 36 cents per share.

The present volume of deliveries is approaching the transmission capability of the Western Pacific pipeline and an expansion program has been commenced to increase its rated capacity to approximately 64,000 barrels per day.

Financial Review

Net income before special items in the fiscal year ended March 31, 1966, was \$2,798,000 compared to \$4,184,000 in the previous year. As explained in the Letter to Shareholders on Page 3 of this Report, the reduction in net earnings last year was substantially due to the additional depreciation and interest charges on the \$55 million extension of the Company's pipeline system to the Fort Nelson area of northeastern British Columbia.

Operating revenues in the past year were \$6,918,000 greater than in the previous year. Cash flow generated by last year's operations amounted to \$11,193,000. These were sufficient to satisfy long-term debt retirement obligations of approximately \$9,000,000 and to provide a nominal increase in working capital which totalled \$4,422,000 at the year end.

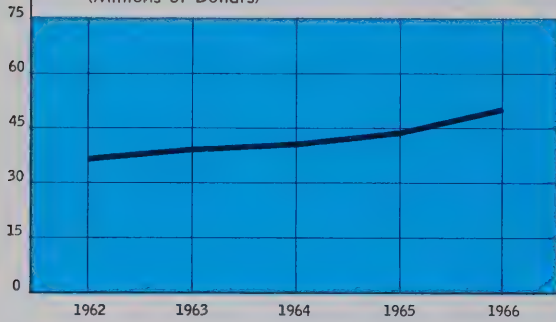
Investment and other income amounted to \$1,488,000, an increase of \$119,000 over the previous year. The increase was largely the result of a property disposal which produced a profit of \$98,000. The bulk of the Company's investment income was realized from dividends of \$1 per share on holdings of 799,000 shares of Western Pacific Products and Crude Oil Pipelines Ltd., and of 25c per share on 125,000 shares of Saratoga Processing Company Limited.

Westcoast and subsidiaries claim capital cost and other allowances in excess of taxable income and as a result no provision for income taxes was required in the past year. Under existing regulations, it is estimated that income taxes will not be payable by the parent company before 1970. The subsidiary, Westcoast Production Company Limited, also will not be subject to income tax for some considerable time due to the tax allowances available to the Company

REVIEW OF OPERATIONS

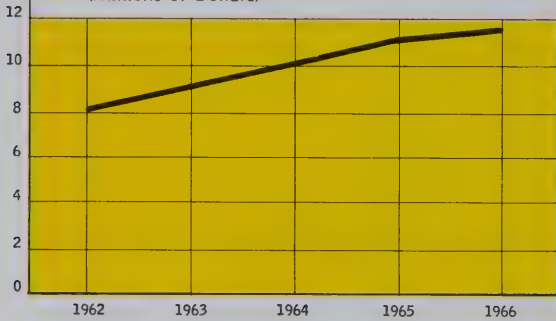
GROSS OPERATING REVENUE

(Millions of Dollars)



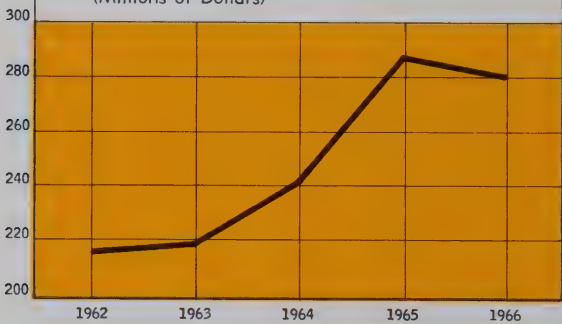
CASH FLOW

(Millions of Dollars)



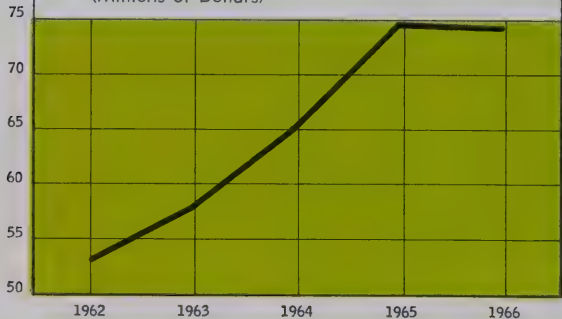
TOTAL ASSETS

(Millions of Dollars)



SHAREHOLDER EQUITY

(Millions of Dollars)



as a result of its large expenditures in exploration for gas and oil.

Although no income tax is payable at present, the Company is subject to other forms of taxation, including sales and excise taxes on pipe and equipment and property taxes on its pipeline system. With the extension of the pipeline to Fort Nelson, property taxes increased 14% last year to a total of \$2,070,000.

A change has been made in the accounting practice of Westcoast Production with respect to leasehold acquisition and development costs. It is felt that accounting records and presentation will be improved under the new policy. An explanation of the procedure Westcoast has introduced is given in Note 7 to the Financial Statements.

Reference was made in last year's annual report to a court action commenced by a minority shareholder of Gas Trunk Line of British Columbia Ltd. This lawsuit was settled out of court. The Company has increased its holdings in the share capital of Gas Trunk to 399,995 shares, representing 99.99% of the issued shares of that company.

* * *

The accomplishments of the past year reflect the combined efforts of the Company's loyal and capable employees. I wish to take this opportunity to express appreciation to them and to our 12,650 shareholders for their continued support and co-operation.

* * *

The Annual Meeting of the Shareholders of the Company will be held at the Bayshore Inn, Vancouver, British Columbia, at 11:00 o'clock in the forenoon on July 25th. A formal notice of the meeting, together with a proxy statement and a form of proxy for those who are unable to attend, is being mailed to each Shareholder.

Respectfully submitted,

A. B. Stewart

President

WESTCOAST TRANSMISSION COMPANY LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

	1966	1965
OPERATING REVENUES:		
Gas sales (Note 5)	\$57,746,803	\$51,047,325
By-product sales	2,709,557	2,695,987
Miscellaneous	425,714	375,681
	<u>60,882,074</u>	<u>54,118,993</u>
OPERATING REVENUE DEDUCTIONS:		
Gas purchases (Note 5)	25,647,791	23,114,403
Operating and maintenance (Note 5)	9,308,623	8,328,634
Administrative and general (Note 5)	2,192,083	2,135,673
Taxes — other than income taxes	2,070,314	1,717,944
	<u>39,218,811</u>	<u>35,296,654</u>
OPERATING INCOME	21,663,263	18,822,339
INVESTMENT AND OTHER INCOME	1,488,221	1,369,951
	<u>23,151,484</u>	<u>20,192,290</u>
INCOME DEDUCTIONS:		
Interest on debt — less interest charged to construction (1966—\$21,452; 1965—\$2,139,983) (Note 2)	10,921,248	8,192,544
Depreciation	7,447,229	5,921,962
Depletion	597,466	553,319
Amortization (Note 1)	151,083	99,550
Debt discount, premium and expense	178,986	135,860
Exploratory and non-producing property expense	118,491	97,218
Exchange cost re: Operations	\$ 36,083	
Redemption of long term debt	<u>858,155</u>	894,238
Minority interest in net income of subsidiary	20,096	136,682
Other income deductions	23,738	—
	<u>20,352,575</u>	<u>16,007,584</u>
NET INCOME FOR THE YEAR BEFORE SPECIAL ITEMS	2,798,909	4,184,706
GAIN ON SALE OF INVESTMENTS	—	2,840,000
SURRENDERED PETROLEUM AND NATURAL GAS LEASES (Note 7)	505,641	—
NET INCOME FOR THE YEAR (Note 6)	<u>\$ 2,293,268</u>	<u>\$ 7,024,706</u>

The accompanying notes are an integral part of the financial statements.

WESTCOAST TRANSMISSION COMPANY LIMITED

And Subsidiary Companies

INCORPORATED BY SPECIAL ACT OF THE PARLIAMENT OF CANADA

CONSOLIDATED BALANCE

ASSETS

	1966	1965
PLANT, PROPERTY AND EQUIPMENT — at cost (Notes 2 & 7)	\$293,675,358	\$294,151,750
Less accumulated depreciation and depletion	48,373,248	40,394,088
	<u>245,302,110</u>	<u>253,757,662</u>
INVESTMENT IN UNCONSOLIDATED SUBSIDIARY — at cost (Note 1)	<u>250,000</u>	<u>250,000</u>
INVESTMENTS — at cost (Market value 1966—\$14,482,407; 1965—\$14,874,474)	<u>5,053,464</u>	<u>5,052,544</u>
DEFERRED ACCOUNTS RECEIVABLE — Employee housing loans	<u>58,650</u>	<u>63,391</u>
CONSTRUCTION FUNDS ON DEPOSIT WITH TRUSTEE	<u>—</u>	<u>271,660</u>
CURRENT ASSETS:		
Cash	2,412,825	1,983,418
Temporary cash investments — at cost	5,278,061	5,715,603
Deposits with trustees for payment of interest and principal on long term debt	6,739,986	6,911,046
Accounts receivable	6,519,068	5,764,547
Inventories — at cost	1,414,851	1,416,361
Prepaid expenses	234,648	19,380
	<u>22,599,439</u>	<u>21,810,355</u>
DEFERRED CHARGES:		
Unamortized debt discount, premium and expense (Note 4)	2,990,407	3,169,393
Organization expense	51,925	51,925
Other	114,951	599,963
	<u>3,157,283</u>	<u>3,821,281</u>
EXCESS OF COST OF INVESTMENT IN SUBSIDIARY OVER BOOK VALUE AT DATE OF ACQUISITION (Note 1)	<u>2,415,009</u>	<u>2,367,731</u>
	<u>\$278,835,955</u>	<u>\$287,394,624</u>

The accompanying notes are an integral part of the financial statements.

SHEET, MARCH 31, 1966

(with comparative figures as at March 31, 1965)

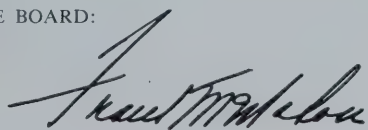
SHAREHOLDERS' EQUITY

	1966	1965
CAPITAL STOCK (Note 3)		
Authorized — 25,000,000 shares without nominal or par value		
Issued — 6,657,784 Shares (1965—6,610,104 Shares)	\$ 58,262,494	\$ 57,666,935
PAID IN SURPLUS	141,500	141,500
RETAINED EARNINGS	16,185,031	17,037,488
	<u>74,589,025</u>	<u>74,845,923</u>

LIABILITIES

LONG TERM DEBT (Note 4)	186,069,750	194,154,456
CURRENT LIABILITIES:		
Accounts payable	4,010,075	3,483,397
Property and sundry taxes	613,483	507,947
Interest on long term debt	4,746,484	5,049,763
Long term debt due within one year (Note 4)	8,806,890	8,922,386
	<u>18,176,932</u>	<u>17,963,493</u>
DEFERRED CREDIT — Customer prepayments under gas sales contract	—	191,389
MINORITY INTEREST IN SUBSIDIARY COMPANY	248	239,363

ON BEHALF OF THE BOARD:



DIRECTOR



DIRECTOR

\$278,835,955

\$287,394,624

WESTCOAST TRANSMISSION COMPANY LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

	1966	1965
BALANCE BEGINNING OF YEAR	\$17,037,488	\$10,012,782
ADD:		
Net income for the year	2,293,268	7,024,706
	19,330,756	17,037,488
DEDUCT:		
Adjustments resulting from change in accounting policy on leasehold acquisition and development costs (Note 7)	3,145,725	—
BALANCE END OF YEAR	\$16,185,031	\$17,037,488

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended March 31, 1966

(with comparative figures for the year ended March 31, 1965)

	1966	1965
SOURCE OF FUNDS:		
Operations:		
Net income for the year before special items	\$ 2,798,909	\$ 4,184,706
Minority interest in net income	20,096	136,682
	2,819,005	4,321,388
Add non-cash items:		
Depreciation, depletion and amortization	8,195,778	6,574,831
Debt discount, premium and expense	178,986	135,860
	11,193,769	11,032,079
Proceeds from sale of investments	—	5,699,999
Capital stock issued for cash	198,055	169,184
Proceeds from additional long-term borrowing (net of financing costs)	850,000	53,856,275
Miscellaneous items	761,413	191,389
	13,003,237	70,948,926
APPLICATION OF FUNDS:		
Additions to plant, property and equipment	3,240,509	45,704,078
Repayment of construction loan	—	5,000,000
Long term debt retirement (net of exchange cost)	8,934,706	8,928,701
Miscellaneous items	252,377	702,151
	12,427,592	60,334,930
EXCESS FUNDS FOR YEAR REPRESENTED BY AN INCREASE IN WORKING CAPITAL	575,645	10,613,996
WORKING CAPITAL (DEFICIT) BEGINNING OF YEAR	3,846,862	(6,767,134)
WORKING CAPITAL END OF YEAR	\$ 4,422,507	\$ 3,846,862

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation:

(a) The consolidated statements include the accounts of the Company and the following subsidiaries: Westcoast Production Co. Ltd.; Westcoast Transmission Company (Alberta) Ltd.; Westcoast Transmission Housing Ltd.; Westcoast Transmission Company, Inc.; and Gas Trunk Line of British Columbia Ltd.

(b) The Company also owns 25% of the issued capital stock of Saratoga Processing Company Limited (including all the voting shares). The accounts of this company have not been included in the consolidated statements. At December 31, the fiscal year end of Saratoga, the Company's equity was as follows:

	1965	1964
Capital Stock	\$250,000	\$250,000
Retained Earnings:		
Balance beginning of year	148,032	107,321
Net income for year	57,931	56,336
	205,963	163,657
Dividends	31,250	15,625
Balance end of year	174,713	148,032
Total equity	\$424,713	\$398,032

(c) During the year the Company acquired additional shares of Gas Trunk bringing its total ownership to 399,995 shares (99.99%) of an issued share capital of 400,020 shares of that company. In consolidation of the accounts of Gas Trunk with those of the Company, the excess of the cost of the investment over the Company's share of the net book value of Gas Trunk at the date of acquisition amounted to \$2,665,642. This amount is being amortized over the remaining life of the Gas Transportation Contract between the Company and Gas Trunk which expires in December, 1981.

2. Plant, Property and Equipment:

The cost of these assets is as follows:

	1966	1965
Gas Transmission System:		
Gathering plant	\$ 35,812,793	\$ 35,773,856
Products extraction plant	29,849,861	29,567,557
Transmission plant	195,229,204	194,462,091
General plant	6,441,928	6,218,979
	267,333,786	266,022,483
Petroleum and natural gas leaseholds, reservations, permits, licences, surface rights, wells and production equipment	25,337,217	27,671,475
Construction in progress	1,004,355	457,792
	293,675,358	294,151,750
Less: Accumulated Depreciation	44,498,429	37,116,734
Accumulated Depletion	3,874,819	3,277,354
	48,373,248	40,394,088
	\$245,302,110	\$253,757,662

Interest during construction has been charged to plant, property and equipment at rates varying from 6% to 7½% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Depreciation is calculated by Westcoast and its wholly-owned subsidiaries on straight line rates determined on the economic and physical life of the assets in service at the commencement of the fiscal period. Depreciation of Gas Trunk facilities is calculated on a straight line basis in accordance with its Gas Transportation Contract with the Company.

The projected construction program for 1966-67 is estimated to cost \$13,900,000. Of this amount \$765,000 has been expended to March 31, 1966 and is included in construction in progress.

3. Capital Stock:

(a) During the year the Company issued 47,680 shares as follows:

19,785 shares for a cash consideration of \$198,055 upon the exercise of employee stock options.

27,895 shares in exchange for a like number of shares in Gas Trunk Line of British Columbia Ltd., at a price of \$14.25 per share as determined by the directors.

(b) Share reservations and options:

(i) 100,000 shares were reserved for sale to such officers and directors and employees and under such terms and conditions as the directors may designate at prices not lower than 75% of the market price prevailing during the month preceding the month of such designation.

At April 1, 1965 options to purchase 69,835 shares were outstanding. During the year options for 1,000 shares were granted, and options on 19,785 shares were exercised.

At March 31, 1966 options were outstanding to purchase 51,050 shares, of which 35,200 have been allocated to directors and officers, at prices ranging from \$10.65 to \$14.12 per share exercisable from time to time to December 31, 1973; a total of 46,375 shares have been issued under this reservation and 2,575 shares remain unallocated.

(ii) 774,234 shares have been reserved for conversion of the 5½ % Subordinate Debentures, Series C at the conversion rate as adjusted in accordance with the terms of the Indenture.

(iii) 1,745,313 shares have been reserved for the conversion of the First Mortgage Pipe Line Bonds 5¾ % Convertible Series (Series D) and (Series E) at the initial conversion rate.

(c) The Indenture and Agreements relating to the Company's long term debt contain restrictions as to the declaration or payment of dividends on capital stock (other than dividends payable in capital stock).

4. Long Term Debt:

Detail of the Companies' long term debt is as follows:

WESTCOAST TRANSMISSION COMPANY LIMITED	United States Dollars	Canadian Dollars (a)	
		1966	1965
First Mortgage Pipe Line Bonds 4¾ % Series (Series A) due November 1, 1977, payable \$2,950,000 (U.S.) semi-annually	\$ 71,200,000	\$ 68,924,871	\$74,636,341
First Mortgage Pipe Line Bonds 5% Series (Series B) due November 1, 1969, payable \$700,000 (U.S.) semi-annually	5,650,000	5,399,281	6,737,156
First Mortgage Pipe Line Bonds 6% Series (Series C) due November 1, 1980, payable \$130,000 (U.S.) semi-annually	3,870,000	4,162,366	4,302,188
First Mortgage Pipe Line Bonds 5¾ % Convertible Series (Series D) due November 1, 1984, payable \$1,535,000 semi-annually commencing May 1, 1972 (b)	—	40,000,000	40,000,000
First Mortgage Pipe Line Bonds 5¾ % Convertible Series (Series E) due November 1, 1984, payable \$603,000 semi-annually commencing May 1, 1972 (b)	—	15,850,000	15,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	United States Dollars	Canadian Dollars (a)	
		1966	1965
5% Notes due July 1, 1967, payable \$500,000 (U.S.) semi-annually	\$ 3,000,000	\$ 3,229,471	\$ 4,305,961
Thirty-two year 5½ % Subordinate Debentures, Series A, due April 1, 1988	20,500,000	20,405,667	20,405,667
5½ % Subordinate Debentures, Series B, due April 1, 1988	3,100,000	2,970,188	2,970,188
5½ % Subordinate Debentures, Series C, due April 1, 1988, convertible into shares of capital stock of the Company at \$32.29 (U.S.) per share if converted on or before September 1, 1967, and at \$34.69 (U.S.) per share if converted thereafter and on or before July 15, 1978	25,000,000	24,031,250	24,031,250
GAS TRUNK LINE OF BRITISH COLUMBIA LTD.			
First Mortgage Sinking Fund Bonds 6% Series A due October 1, 1979, payable \$105,000 (U.S.) semi-annually to April 1, 1966 and \$238,000 (U.S.) semi-annually thereafter	6,475,000	6,602,887	6,822,361
5½ % Notes due December 31, 1965	—	—	393,124
6% Subordinate Debentures, Series A, due October 1, 1981, payable \$60,000 semi- annually commencing October 1, 1966	—	3,000,000	3,000,000
Less purchased by Company and held for cancellation	—	(117,000)	—
		194,458,981	202,604,236
Mortgage payable by subsidiary company on employee housing with interest at 5¼ %		417,659	472,606
		194,876,640	203,076,842
Deduct long term debt maturing within one year—shown as current liability		8,806,890	8,922,386
		<u>\$186,069,750</u>	<u>\$194,154,456</u>

(a) Long term debt sold in United States funds and the portion maturing within one year have been converted at the exchange rates prevailing at the respective dates of sale.

(b) Convertible at various rates from \$32 per share commencing November 1, 1965, to \$37 per share after November 1, 1975, up to the close of business on November 1, 1976.

The Company purchased and pledged with the Trustee of the First Mortgage Pipe Line Bonds \$2,154,098 (Canadian) being all the principal amount of a wholly-owned subsidiary's 4¾ % Series (Series A) First Mortgage Pipe Line Bonds.

Debt discount, premium and expense is being amortized over the terms of the respective issues.

5. Statement of Operations:

(a) The total remuneration paid to the Directors of the Company during the year as directors, officers or employees amounted to \$256,900 (1965—\$276,116).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Included in the operating accounts are the revenues and expenses associated with deliveries of gas in southern Alberta, southern British Columbia and at Kingsgate for export to the United States. Under the terms of the sales agreements, the sales price of the gas delivered is equivalent to the cost of the gas to the Company namely:

	1966	1965
Cost of gas purchased	\$ 7,522,510	\$ 7,548,199
Cost of processing and transportation	4,312,064	4,440,780
Sales price included in gas sales	<u>\$11,834,574</u>	<u>\$11,988,979</u>

6. Income Taxes:

No provision for income taxes is required as the companies claim capital cost and other allowances in excess of amounts recorded in the accounts sufficient to offset taxable income. If income tax regulations did not permit these deductions, the tax provision for the year would have amounted to approximately \$1,700,000. The accumulated total of such provisions at March 31, 1966 approximates \$8,800,000.

7. Change in Accounting Practice of the Production Company:

In prior years, expenditures related to the acquisition and carrying of leaseholds were capitalized together with the costs of drilling productive wells. Exploratory costs as incurred, unproductive wells as abandoned, and certain leaseholds when surrendered, were written off to expense. Depletion of productive leasehold and well costs was provided out of income on the unit-of-production method based on the underlying reserves.

Commencing April 1, 1965, the Company adopted a policy wherein all expenditures incurred on the acquisition, carrying, exploration and development of oil and gas properties will be capitalized as a cost of each leasehold acquired. Seismic and other exploratory costs that cannot be readily identified with a property in which the Company has an interest will be written off to expense during the fiscal period the expenditure is made. When an unproductive leasehold property is surrendered, all related costs will be written off to expense. The cost of productive property will be amortized over the life of the recoverable gas and oil reserves by regular charges to depletion expense based on the composite unit-of-production method.

As a result of this policy, well costs of \$677,473 written off in prior years were capitalized; leasehold costs of \$3,823,198 not specifically allocated to the leases surrendered in prior years were written off to retained earnings, and costs of \$505,641 related to leases surrendered during the year were written off to expense. Had this policy not been adopted, charges to expense with respect to wells abandoned in the current year would have been \$326,887.

8. Commitments and Contingent Liabilities:

(a) An action, commenced in 1961, against a gas supplier of the Company, in which the Company has been joined as a defendant, remains unsettled. This action claims certain alleged benefits under farm-out agreements between the plaintiff and the gas supplier and for damages for breach of contract in the amount of \$5,000,000. The Company has denied any liability and, in the opinion of Counsel, there is nothing to justify or support the substantial monetary claim or other claims of substance put forward by the plaintiff.

(b) Westcoast Production Co. Ltd. has guaranteed the bank loan of an affiliated company amounting to \$66,700 as at March 31, 1966.

To the Shareholders of Westcoast Transmission Company Limited:

We have examined the consolidated balance sheet of Westcoast Transmission Company Limited and its subsidiary companies as at March 31, 1966 and the consolidated statements of operations, retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Westcoast Transmission Company Limited and its subsidiary companies as at March 31, 1966 and the results of their operations and the sources and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting practice relative to Petroleum and Natural Gas properties, with which we concur, as set out in Note 7 to the consolidated financial statements.

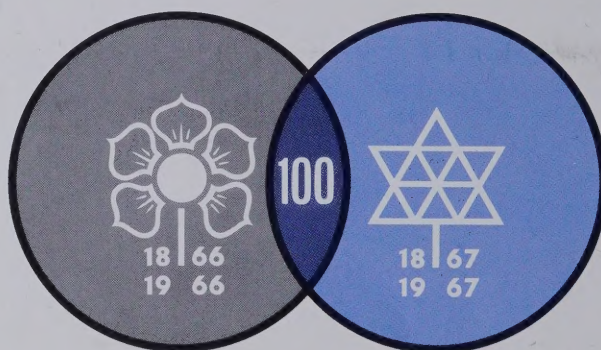
Vancouver, Canada, June 1, 1966.

Clarkson, Gordon & Co.
CHARTERED ACCOUNTANTS

SECURITIES	REGISTRARS	TRANSFER AGENTS
First Mortgage Pipe Line Bonds 4¾ % (Series A)	Montreal Trust Company Calgary, Alta.	Montreal Trust Company Montreal, P.Q., Toronto, Ont., Calgary, Alta.
First Mortgage Pipe Line Bonds 5 % (Series B)	"	First National City Bank New York, N.Y.
First Mortgage Pipe Line Bonds 6 % Series (Series C)	"	"
First Mortgage Pipe Line Bonds 5¾ % Convertible Series (Series D)	Montreal Trust Company Calgary, Alta.	Montreal Trust Company Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C. First National City Bank New York, N.Y.
First Mortgage Pipe Line Bonds 5¾ % Convertible Series (Series E)	"	Montreal Trust Company Montreal, P.Q., Toronto, Ont., Winnipeg, Man., Calgary, Alta., Vancouver, B.C. First National City Bank New York, N.Y.
Thirty-two year 5½ % Subor- dinate Debentures, Series A	First National City Bank New York, N.Y.	First National City Bank New York, N.Y.
5½ % Subordinate Debentures, Series B	Montreal Trust Company (co-registrar) Montreal, P.Q., Toronto, Ont. Calgary, Alta., Vancouver, B.C.	Montreal Trust Company Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C.
5½ % Subordinate Debentures, Series C	"	"
Capital stock (share certificates)	Canada Trust Company Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C.	Montreal Trust Company Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C.
	Chemical Bank New York Trust Company New York, N.Y.	First National City Bank New York, N.Y.

Listed on Toronto, Montreal and Vancouver Stock Exchanges in Canada, and New York and Pacific Coast Stock Exchanges in the United States.

Auditors: CLARKSON, GORDON & CO., VANCOUVER, B.C.



This insignia is presently displayed throughout British Columbia to symbolize a two-year Centennial Celebration which is now in progress. This year, the Province is marking the centenary of its formation in 1866, when separate British settlements on the Pacific Coast were united in the Crown Colony of British Columbia. Next year, Canada as a whole will observe a national Centennial commemorating the Canadian Confederation in 1867. As a corporate citizen of both British Columbia and Canada, West-coast is proud to participate in these historic observances and the Company takes this opportunity to salute the Province and the Nation on their respective 100th Birthdays.